GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

UNSTARRED QUESTION NO:908
ANSWERED ON:23.10.2008
HIKE IN PRICE OF PETRO PRODUCT PETROL
Sen Smt. Minati

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether the recent petroleum and petro-product price hike has been made without proper assessment of the actual deficit of the public sector oil companies and on the basis of the vague term as "under-recoveries"; and

(b) if so, the details and reasons therefor?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS(SHRI DINSHA PATEL)

(a)and(b): The under-recoveries of Public Sector Oil Marketing Companies (OMCs) on marketing of sensitive petroleum products were estimated at Rs.2.45 lakh crore in June 2008 based on the approved principles of Import Parity pricing for PDS Kerosene & Domestic LPG and Trade Parity pricing for Petrol & Diesel.

The concept of "Under Recovery" was examined by the Committee on Pricing and Taxation of Petroleum Products, under the Chairmanship of Dr. C. Rangarajan,Chairman,Prime Minister's Economic Advisory Council.The Committee had inter-alia observed that:

"Refining of crude oil is a process industry where crude oil constitutes around 90% of the total cost.Since value added is relatively small,determination of individual product-wise prices becomes problematic.The oil marketing companies (OMCs) are currently sourcing their products from the refineries on import parity basis which then becomes their cost price.The difference between the cost price and the realized price represents the under-recoveries of the OMCs."

The under-recoveries of OMCs on marketing of sensitive petroleum products vary in line with movements in the international oil prices.The under-recoveries for 2008-09 which were estimated at Rs.2.45 lakh crore in June 2008 are currently estimated at Rs.1.47 lakh crore,based on the prices of 2nd fortnight of October, 2008.